

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 1065 (Delegate C. Mitchell)
Appropriations

Pension Systems - Cost-of-Living Adjustment

This pension bill provides a 3% compound cost-of-living adjustment (COLA) for retirees of the Employees' Pension System (including participating municipal corporations), the Local Fire and Police System, the Law Enforcement Officers' Pension System, and the Teachers' Pension System. Current law provides a 3% simple COLA for retirees of these systems. The bill is effective July 1, 1997.

Fiscal Summary

State Effect: Retirement expenditures could increase by an estimated \$28.0 million beginning in FY 1999. Future year expenditures reflect 5% growth. No effect on revenues.

(\$ in millions)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF/SF/FF Rev	\$0	\$0	\$0	\$0	\$0
GF/SF/FF Expend	\$0	\$28.0	\$29.4	\$30.9	\$32.5
Net Effect	\$0	(\$28.0)	(\$29.4)	(\$30.9)	(\$32.5)

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: Retirement expenditures for local governments with employees participating in the Employees' Pension System or the Local Fire and Police System would increase by \$2.8 million beginning in FY 1999 and increasing 5% per year thereafter. No effect on revenues.

Small Business Effect: None. This bill would not directly affect small businesses.

Fiscal Analysis

State Expenditures: The bill provides that the maximum 3% COLA for the pension systems is based on the retirement allowance paid as of June 30 of the previous fiscal year (compound COLA). Under current law, any COLA is based upon the initial retirement allowance (simple COLA). Current law therefore puts a cap on any single annual COLA increase at 3% regardless of prior-year changes in the cost of living; under the proposed legislation, the initial retirement allowance is adjusted to reflect multi-year changes in the cost of living but at no time may the compound increase exceed 3%.

While this bill has not been forwarded to the State's actuary for a detailed actuarial analysis, based on studies for bills introduced in prior years, the actuary was able to offer an informal estimate. The actuary advises that the State's actuarial liability would increase by an estimated \$255 million as a result of providing a 3% compound COLA. This liability would be amortized over 21 years through the year 2020 with a first year cost of \$14.6 million in fiscal 1999. Out-year expenditures reflect the actuarially assumed 5% rate of growth.

In addition, the normal cost of employer contributions -- the amount the employer must contribute to fund future benefits exclusive of existing liabilities -- for the State pension systems will increase from 7.61% to 7.85%, for an additional normal cost of 0.24% of payroll permanently. This amount is estimated at \$13.4 million beginning in fiscal 1999, also increasing 5% per year thereafter.

In total, employer contributions are estimated to increase by \$28.0 million beginning in fiscal 1999, increasing 5% per year thereafter. These additional retirement expenditures are assumed to be shared 60% general fund, 20% special fund, and 20% federal funds.

Local Expenditures: Retirement expenditures would increase for local governments with employees participating in the municipal corporations pension system (part of the Employees Pension System) or the Local Fire and Police Pension System. Actuarial liabilities of these pension systems would increase by an estimated \$22.9 million as a result of providing a 3% compound COLA. These liabilities would be amortized over 21 years through the year 2020 with a first year cost of \$1.3 million in fiscal 1999. Out-year expenditures reflect the actuarially assumed 5% rate of growth. In addition, the normal cost of the municipal pension system and the Local Fire and Police Pension System are estimated to increase from 6.05% to 6.3% of payroll, for an additional normal cost of 0.25% of payroll, or \$1.5 million beginning in fiscal 1999, and increasing 5% per year thereafter.

In total, local employer contributions are estimated to increase by \$2.8 million in fiscal 1999, and increasing 5% per year thereafter.

Information Source(s): State Retirement Agency, Milliman & Robertson, Inc., Department

of Fiscal Services

Fiscal Note History: First Reader - February 17, 1997

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